Angus Moir
Bank of England
Threadneedle Street London,
EC2R 8AH

Sent by email

05 June 2020

Response to Transforming data collection from the UK financial sector

Dear Angus,

Further to the discussion paper on Transforming data collection from the UK financial sector, ISLA would like to submit the below responses for your consideration.

Apologies for the delay in sending.

The information provided represents the consensus of the ISLA Digital Working Group, which is available to all ISLA members and not considered confidential.

Yours sincerely,

Adrian Dale
Head of Regulation & Market Practice

The International Securities Lending Association (ISLA)
75 King William Street, London, EC4N 7BE

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Question Responses

<u>Overall</u>

A. Which of the solutions identified (or combination of solutions) do you see as most attractive to explore further as a long-term goal, and why? Are there other promising options we have not considered?

Refer: Page 6 & 9. Three blocks of solutions. (1) common data inputs (2) modernising reporting instructions and (3) changes to the reporting architecture.

ISLA Response:

Our industry has a long history of developing regulatory reporting solutions through modernising and changes to reporting architecture (option 2 and 3). Although these approaches do fulfil a requirement, both the financial institutions and their regulators have come to realise this approach has limitations. New reporting obligations typically result in associated developments, costs, and a potential risk that either the data requested does not fully capture the activity or worse, negatively impacts markets. A regulatory example of this in 2020 is [SFTR](#), underpinned by ISO20022, which has required years of development and, many believe, does not fully capture the nuances of our industry.

ISLA is working on behalf of their members on a new approach to digitalisation and common data representations which could facilitate regulatory reporting and provide multiple benefits to financial firms. The work is outlined in the white paper 'An Agenda for Change' (24 September 2019) which supports option 1 (common data inputs) in your discussion paper.

https://www.isla.co.uk/thought-leadership/the-future-of-the-securities-lending-market-an-agenda-for-change/

B. What do you see as the most useful actions to take as interim steps towards such a goal?

ISLA Response:

The reporting requirements of [SFTR](#) has created a framework within which financial firms move towards aligned data standards. Firms are encouraged further by the obligations of [CSDR](#) which demands more effective communication to avoid settlement penalties.

In terms of useful actions and interim steps, we must first be able to accurately describe financial activity using a broad but common standard. That standard should be capable of fully representing our market and supporting current regulation.

It will benefit the market for regulators to continue to take an interest in the development of a centralised standard through support, encouragement, and empowerment of trade associations to this aim. By building on the consensus approach present within associations, for example in delivering best practices and regulatory compliance, it would be possible to simultaneously realise the goal of a common standard and harmonised acceptance of that. In recognition of this development, regulators might also consider providing the industry with space and time from new regulatory developments.

C. Which sectors / reports should be prioritised, or excluded, in relation to the long-term goal and the interim steps?

ISLA Response:

There is a degree of overlap between financial markets with shared terms, for example in the description of cash flows, creating commonality across sectors and reports. When planning for interim steps, shared terms, the impact of any priority and the ultimate digestion of that data should be considered so that no one industry creates bespoke data structures, unless necessary. For example, in testing common data models for other industries, testers identified that the starting point in determining a common term should be carefully assessed. As although one term may be common to different markets, its use could be quite different.

D. In what respects do you consider it most important that the Bank coordinates reforms to data collection with other UK or international authorities?

ISLA Response:

Regulations in one jurisdiction are often used as a template in other countries. Being that most firms who report under UK regulation operate on a global scale, it is critical that any development towards a common standard is coordinated internationally as much as possible.

E. What do you see as the most significant wider benefits to firms or to the financial system from improvements to data collection, beyond cost reduction?

ISLA Response:

One significant benefit raised by firms is the reduction in regulatory burden as new regulatory reporting requests are created. For example, data requests in multiple jurisdictions would require less or no new developments.

Firms are also mindful that, especially in times of stress, their clients and the industry could take comfort from the improved transparency of markets. This view was agreed by our working group who noted comments made about the 2008 crisis. For instance, where some noted insufficient access to data, a requirement for consistent reporting standards, use of the correct technology or that without innovative solutions there is a risk of reverting to a 2008 style of decision-making.

Using a common data representation would offer regulators both the spectrum of data and the ability to manipulate the data to achieve desired outcomes, without lengthy new developments, that would also quickly reflect the impact of regulatory changes.

Costs (Chapter 3)

F. What are the most significant areas of avoidable cost and challenge associated with the current reporting process, and what is the relative burden associated with different steps and types of report, as set out in the discussion paper?

ISLA Response:

One of the most prominent unnecessary costs associated with regulatory reporting relates to alignment of regulations in different jurisdictions. For example, regulations that are fractionally different but require new development(s) to satisfy.

Our members agree with the 'pain points' raised in the discussion paper (3.12) regarding interpretation of authorities' requirements and further, the market consensus of that interpretation. Points 3.16 & 3.17 triggered debate about extra data points which firms may not store or use in normal course of business. Good examples of this would be publicly available descriptive data that could be gathered by a regulator to enrich what has been received. This would avoid firms needing to individually a) develop new storage mechanisms b) build bespoke mapping and c) pay for associated licensing to share that data.

G. What non-regulatory developments might have a significant effect on reporting costs and challenges over the next decade (e.g. systems redesigns, use of cloud, AI, market developments)?

ISLA Response:

Firms typically move to technologies like cloud and AI to reduce costs, with the understanding that there will be short term associated migration & development investment. Many are also considering data lakes and distributed ledgers, the first to improve data quality and the second to realise the perceived benefits.

Common data inputs (Chapter 6)

H. What are your views on the benefits and challenges from seeking to define a common set of data points as the basis for reporting?

ISLA Response:

We would like to refer to question A which provides a link to the white paper 'An Agenda for Change'. Please see page 12 'Long-term solutions and key benefits' which identifies benefits and challenges related to the various aspects of this topic.

I.   What additional benefits and challenges would arise from seeking to use industry data standards as the basis for defining reporting requirements? What should the role of regulators be in the development and adoption of such standards?

ISLA Response:

Paragraph 6.15 mentions Legal Entity Identifier (LEI), which regulators and market participants welcome as beneficial for identification, transparency, and standardisation. It is our members current experience however that, if that data point is not widely implemented, there are real world implications. For example, SFTR requires LEI of Issuer but if the issuer has not registered or applied their LEI to the security it may no longer be reportable or tradable. A recent study found a significant number of global securities with tradeable values worth many billions (EUR) that have no Issuer LEI. GB registered securities are a small percentage of that study, but the example highlights a valuable point.

Modernising reporting instructions (Chapter 7)

J.   What are your views on the benefits and challenges of the possible improvements to reporting instructions set out in the paper?

ISLA Response:

In discussing this question, members referenced historic pitfalls in defining standards. For example, where any introduced standard restricts growth and innovation.

We noted points made in chapter 7 and discussed further how drawing on 'official or third-party documents' has indeed exacerbated the formation of accurate industry representation.

K.   Governance and architecture (Chapter 8) K. What are your views on the benefits and challenges of the possible changes to architecture and governance set out in the paper – in particular moving to a "pull" model for certain types of data, or moving some functions to a central service provider?

ISLA Response:

In discussing this question, our members noted that the implementation of a common standard is their priority and that they would prefer to debate the merits of push vs pull at a later point.